

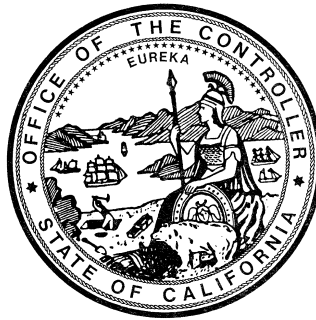
RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd Extraordinary Session,
and Chapter 1118, Statutes of 1987

July 1, 2000, through June 30, 2003



STEVE WESTLY
California State Controller

October 2004



STEVE WESTLY
California State Controller

October 29, 2004

Edward Hernandez, Jr., Ed.D., Chancellor
Rancho Santiago Community College District
2323 North Broadway
Santa Ana, CA 92706

Dear Dr. Hernandez:

The State Controller's Office audited the claims filed by the Rancho Santiago Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2000, through June 30, 2003.

The district claimed \$1,319,583 (\$1,320,583 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that none of the claimed costs is allowable because the district claimed unallowable costs and understated claimed revenue offsets. The State paid the district \$86,580, which the district should return.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's website at www.csm.ca.gov (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/jj

cc: (See page 2)

cc: Mark Zakovic, Ph.D., Vice Chancellor
Business Operations and Fiscal Services
Rancho Santiago Community College District
Ed Monroe, Program Assistant
Fiscal Accountability Section
Chancellor's Office
California Community Colleges
Jeannie Oropeza, Program Budget Manager
Education Systems Unit
Department of Finance
Charles Pillsbury, School Apportionment Specialist
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by the Rancho Santiago Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session (E.S.), and Chapter 1118, Statutes of 1987) for the period of July 1, 2000, through June 30, 2003. The last day of fieldwork was May 6, 2004.

The district claimed \$1,319,583 (\$1,320,583 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that none of the claimed costs is allowable because the district claimed unallowable costs and understated claimed revenue offsets. The State paid the district \$86,580, which the district should return.

Background

Education Code Section 72246 (repealed by Chapter 1, Statutes of 1984, 2nd E.S.) authorized community college districts to charge a health fee for providing health supervision and services, direct and indirect medical and hospitalization services, and operation of student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating the community college districts' authority to charge a health fee as specified.

Education Code Section 72246 (amended by Chapter 1118, Statutes of 1987) requires any community college district that provided health services in FY 1986-97 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 1, Statutes of 1984, 2nd E.S., imposed a "new program" upon community college districts by requiring any community college district that provided health services for which it was authorized to charge a fee pursuant to former *Education Code* Section 72246 in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applies to all community college districts that levied a health services fee in FY 1983-84, regardless of the extent to which the health services fees collected offset the actual costs of providing health services at the FY 1983-84 level.

On April 27, 1989, COSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87, and required them to maintain that level in FY 1987-88 and each fiscal year thereafter.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted the *Parameters and Guidelines* on August 27, 1987, and amended it on May 25, 1989. In compliance with *Government Code* Section 17558, the SCO issued claiming instructions for mandated programs to assist school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2000, through June 30, 2003.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Rancho Santiago Community College District claimed \$1,319,583 (\$1,320,583 less a \$1,000 penalty for filing a late claim) for Health Fee Elimination Program costs. Our audit disclosed that none of the claimed costs is allowable.

For FY 2000-01, the State paid the district \$43,290. Our audit disclosed that none of the costs claimed is allowable. The district should return the total amount paid to the State.

For FY 2001-02, the State paid the district \$43,290. Our audit disclosed that none of the costs claimed is allowable. The district should return the total amount to the State.

For FY 2002-03, the State made no payment to the district. Our audit disclosed that none of the costs claimed is allowable.

**Views of
Responsible
Official**

We issued a draft audit report on August 31, 2004. Noemi M. Kanouse, Assistant Vice Chancellor, Fiscal Services, responded by letter dated October 6, 2004, agreeing with the audit results except for Findings 3 and 4. The final audit report includes the district's response as the Attachment.

Restricted Use

This report is solely for the information and use of the Rancho Santiago Community College District, the California Department of Education, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 2000, through June 30, 2003

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference</u> ¹
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ 475,026	\$ 448,424	\$ (26,602)	Finding 1
Services and supplies	30,445	6,255	(24,190)	Finding 2
Indirect costs	231,338	59,245	(172,093)	Finding 3
Total health services costs	736,809	513,924	(222,885)	
Less authorized health services fees	(342,105)	(698,356)	(356,251)	Finding 4
Subtotals	394,704	(184,432)	(579,136)	
Less offsetting savings/reimbursements	—	(14,694)	(14,694)	Finding 5
Subtotals	394,704	(199,126)	(593,830)	
Less late penalty	(1,000)	(1,000)	—	
Subtotals	393,704	(200,126)	(593,830)	
Adjustment to eliminate negative balance	—	200,126	200,126	
Total costs	<u>\$ 393,704</u>	—	<u>\$ (393,704)</u>	
Less amount paid by the State		(43,290)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (43,290)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 666,514	\$ 602,430	\$ (64,084)	Finding 1
Services and supplies	21,435	4,603	(16,832)	Finding 2
Indirect costs	325,459	77,882	(247,577)	Finding 3
Total health services costs	1,013,408	684,915	(328,493)	
Less authorized health services fees	(494,898)	(783,201)	(288,303)	Finding 4
Subtotals	518,510	(98,286)	(616,796)	
Less offsetting savings/reimbursements	—	(14,914)	(14,914)	Finding 5
Subtotals	518,510	(113,200)	(631,710)	
Less late penalty	—	—	—	
Subtotals	518,510	(113,200)	(631,710)	
Adjustment to eliminate negative balance	—	113,200	113,200	
Total costs	<u>\$ 518,510</u>	—	<u>\$ (518,510)</u>	
Less amount paid by the State		(43,290)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (43,290)</u>		

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference</u> ¹
<u>July 1, 2002, through June 30, 2003</u>				
Salaries and benefits	\$ 691,832	\$ 638,682	\$ (53,150)	Finding 1
Services and supplies	44,960	8,784	(36,176)	Finding 2
Indirect costs	<u>232,594</u>	<u>81,386</u>	<u>(151,208)</u>	Finding 3
Total health services costs	969,386	728,852	(240,534)	
Less authorized health services fees	<u>(562,017)</u>	<u>(714,207)</u>	<u>(152,190)</u>	Finding 4
Subtotals	407,369	14,645	(392,724)	
Less offsetting savings/reimbursements	<u>—</u>	<u>(22,116)</u>	<u>(22,116)</u>	Finding 5
Subtotals	407,369	(7,471)	(414,840)	
Less late penalty	<u>—</u>	<u>—</u>	<u>—</u>	
Subtotals	407,369	(7,471)	(414,840)	
Adjustment to eliminate negative balance	<u>—</u>	<u>7,471</u>	<u>7,471</u>	
Total costs	<u>\$ 407,369</u>	<u>—</u>	<u>\$ (407,369)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>Summary: July 1, 2000, through June 30, 2003</u>				
Salaries and benefits	\$ 1,833,372	\$ 1,689,536	\$ (143,836)	Finding 1
Services and supplies	96,840	19,642	(77,198)	Finding 2
Indirect costs	<u>789,391</u>	<u>218,513</u>	<u>(570,878)</u>	Finding 3
Total health services costs	2,719,603	1,927,691	(791,912)	
Less authorized health services fees	<u>(1,399,020)</u>	<u>(2,195,764)</u>	<u>(796,744)</u>	Finding 4
Subtotals	1,320,583	(268,073)	(1,588,656)	
Less offsetting savings/reimbursements	<u>—</u>	<u>(51,724)</u>	<u>(51,724)</u>	Finding 5
Subtotals	1,320,583	(319,797)	(1,640,380)	
Less late penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Subtotals	1,319,583	(320,797)	(1,640,380)	
Adjustment to eliminate negative balance	<u>—</u>	<u>320,797</u>	<u>320,797</u>	
Total costs	<u>\$ 1,319,583</u>	<u>—</u>	<u>\$ (1,319,583)</u>	
Less amount paid by the State		<u>(86,580)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (86,580)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salary and benefit costs

The district overstated salary and benefit costs by \$143,836 for the following staff:

- An employee funded by the Academic Senate totaling \$34,051.
- Employees funded by the Partnership for Excellence I program totaling \$32,998.
- Employees funded by the Partnership for Excellence II program totaling \$16,824.
- Employees funded by the Matriculation program totaling \$33,974.
- Unsupported costs of a school psychologist totaling \$25,989. The district used a 60% rate to allocate the employee's work time to the health services center; the time records supported only a 45% rate.

A summary of the adjustment is as follows:

	Fiscal Year			
	2000-01	2001-02	2002-03	Total
Salaries and benefits funded by:				
Academic Senate	\$ (26,602)	\$ (7,449)	\$ —	\$ (34,051)
Partnership for Excellence I	—	(16,403)	(16,595)	(32,998)
Partnership for Excellence II	—	(10,858)	(5,966)	(16,824)
Matriculation	—	(16,500)	(17,474)	(33,974)
Psychologist's salary prorated at 60%	—	(12,874)	(13,115)	(25,989)
Total audit adjustment	<u>\$ (26,602)</u>	<u>\$ (64,084)</u>	<u>\$ (53,150)</u>	<u>\$ (143,836)</u>

Parameters and Guidelines specifies that community college districts shall be reimbursed only for costs of health services programs that are traceable to supporting documentation showing evidence of the validity of such costs.

Recommendation

We recommend that the district develop and implement an adequate accounting system to ensure all claimed costs are eligible.

District's Response

The district agrees with this finding.

**FINDING 2—
Unallowable services
and supplies**

The district overstated services and supplies by \$77,198 for costs funded by:

1. Partnership for Excellence I of \$16,804; and
2. Partnership for Excellence II of \$60,394.

A summary of the adjustment is as follows:

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Services and supplies funded by:				
Partnership for Excellence I	\$ (16,804)	\$ —	\$ —	\$(16,804)
Partnership for Excellence II	<u>(7,386)</u>	<u>(16,832)</u>	<u>(36,176)</u>	<u>(60,394)</u>
Total audit adjustment	<u>\$ (24,190)</u>	<u>\$ (16,832)</u>	<u>\$(36,176)</u>	<u>\$(77,198)</u>

Parameters and Guidelines specifies that community college districts shall be reimbursed only for costs of health services programs that are traceable to supporting documentation showing evidence of the validity of such costs.

Recommendation

We recommend that the district develop and implement an adequate accounting system to ensure all claimed costs are eligible.

District's Response

The district agrees with this finding.

**FINDING 3—
Overstated indirect
cost rate claimed**

The district overstated indirect costs by \$570,878 for the audit period.

The district claimed indirect costs based on indirect cost rate proposals (ICRPs) prepared for each fiscal year by an outside consultant. However, the district did not obtain federal approval for its ICRPs. We calculated indirect cost rates using the methodology allowed by the SCO claiming instructions. The calculated indirect cost rates did not support the indirect cost rates claimed. The claimed and audited indirect cost rates are summarized below:

	Fiscal Year		
	2000-01	2001-02	2002-03
Allowable indirect cost rate based on total direct costs (salaries and benefits, services and supplies)	13.03%	12.83%	12.57%
Claimed indirect cost rate based on salaries and benefits	48.7%	48.83%	33.62%

Our recalculation of indirect costs is summarized below:

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Allowable direct costs claimed	\$ 454,679	\$ 607,033	\$ 647,466	
Allowable indirect cost rate	× 13.03%	× 12.83%	× 12.57%	
Allowable indirect costs	59,245	77,882	81,386	
Less claimed indirect costs	(231,338)	(325,459)	(232,594)	
Total audit adjustment	<u>\$ (172,093)</u>	<u>\$ (247,577)</u>	<u>\$ (151,208)</u>	<u>\$ (570,878)</u>

Parameters and Guidelines states that indirect costs may be claimed in the manner described by the SCO in the claiming instructions.

The SCO's claiming instructions state that community colleges have the option of using a federally approved rate prepared in accordance with OMB Circular A-21 or the SCO's alternate methodology using Form FAM-29C.

Recommendation

We recommend that the district ensure indirect costs claimed are computed using a federally approved rate prepared in accordance with OMB Circular A-21, or the SCO's alternate methodology using Form FAM-29C.

District's Response

The first of these disagreements, Finding 3, relates to the calculation of the college's Indirect Cost Rate Proposal (ICRP). The SCO alleges that the college has overstated its indirect costs by \$570,878 during the period of audit due to the fact that the rate was not federally approved. Furthermore, the SCO's recommendation states, "We recommend that the district ensure indirect costs claimed are computed using a federally approved rate prepared in accordance with OMB Circular A-21, or the SCO's alternate methodology using Form FAM-29C."

The Indirect Cost Rate Proposals were prepared in accordance with the federally approved methodology as provided by OMB Circular A-21, however these rates do not have federal approval. In order for the district to obtain federal approval it must have programs or grants funded by federal dollars that require a federally approved rate, and then submit the appropriate ICRPs for approval. If the district does not have federal program dollars or grants the cognizant federal agency responsible for approving the rates will simply return the rate calculation without consideration.

Since the *Parameters and Guidelines* specify "...indirect costs may be claimed in the manner described by the SCO in the claiming instructions." it is apparent that the SCO made the determination to only accept a federally approved rate, or the SCO's alternative methodology, but not rates prepared in accordance with OMB Circular A-21. As a result, the SCO has established an inequity between those agencies that are able to obtain federal approval and those that are refused consideration; due to the fact the SCO's alternative

methodology yields an average rate of only about one third of the federal methodology.

Additionally, we believe the intent of the constitution and the reimbursement process is to indemnify districts for their actual costs incurred, including direct and indirect costs. However, as a result of the SCO's restriction on the application of the federal rate methodology, two separate districts that incur identical costs will receive significantly different reimbursement. If district A is allowed to use a federally approved rate and district B is not eligible to apply for the federal rate, and is then required to use the SCO's methodology, district A could receive as much as three times or greater reimbursement for indirect costs. Since the SCO has created this inequity and districts cannot remedy it, we believe the SCO's restriction is unconstitutional. We believe it is unconstitutional for the SCO to make any determination that creates an inequity in treatment between similar agencies since the Rancho Santiago Community College District and other districts will continue to be denied their right to a federal rate consideration and approval.

SCO's Comment

The finding and recommendation remain unchanged. *Parameters and Guidelines* states that indirect costs may be claimed in the manner described by the SCO's claiming instructions, which state community college districts have the option of using a federally approved rate prepared in accordance with OMB Circular A-21 or the SCO's alternate methodology using Form FAM 29C. The district claimed indirect costs using an indirect cost rate that was not approved by a federal agency. Therefore, the district must compute indirect costs using Form FAM 29C.

FINDING 4— Understated authorized health fee revenue claimed

The district understated authorized health fee revenue by \$796,744 for the audit period.

The district used the student counts from Report #1920 (selected students used for census purposes) instead of Report #1365 (actual billable student count). In addition, the district underreported authorized student health fees by one dollar for the summer of FY 2000-01 and all of FY 2001-02. Using Report #1365, we recalculated offsetting health fees for each year as follows:

	<u>Fall</u>	<u>Spring</u>	<u>Summer</u>	<u>Total</u>
<u>FY 2000-01</u>				
Claimed net student enrollment	13,172	13,551	6,019	
Claimed authorized student health fee	× \$11	× \$11	× \$8	
Claimed authorized health fees	<u>\$ 144,892</u>	<u>\$ 149,061</u>	<u>\$ 48,152</u>	
Actual student enrollment	33,279	40,202	17,376	
Health fee exemption	<u>(9,664)</u>	<u>(10,253)</u>	<u>(5,248)</u>	
Actual net student enrollment	23,615	29,949	12,128	
Actual authorized student health fee	× \$11	× \$11	× \$9	
Actual authorized health fees	<u>\$ 259,765</u>	<u>\$ 329,439</u>	<u>109,152</u>	
Audit adjustment, FY 2000-01	<u>\$ (114,873)</u>	<u>\$(180,378)</u>	<u>\$(61,000)</u>	\$(356,251)

	<u>Fall</u>	<u>Spring</u>	<u>Summer</u>	<u>Total</u>
<u>FY 2001-02</u>				
Claimed net student enrollment	18,333	19,017	10,506	
Claimed authorized student health fee	× \$11	× \$11	× \$ 8	
Claimed authorized health fees	<u>\$ 201,663</u>	<u>\$ 209,187</u>	<u>\$ 84,048</u>	
Actual student enrollment	37,521	39,991	18,651	
Health fee exemption	<u>(10,825)</u>	<u>(11,033)</u>	<u>(5,834)</u>	
Actual net student enrollment	26,696	28,958	12,817	
Actual authorized student health fee	× \$12	× \$12	× \$ 9	
Actual authorized health fees	<u>\$ 320,352</u>	<u>\$ 347,496</u>	<u>\$115,353</u>	
Audit adjustment, FY 2001-02	<u>\$ (118,689)</u>	<u>\$(138,309)</u>	<u>\$(31,305)</u>	(288,303)
<u>FY 2002-03</u>				
Claimed net student enrollment	20,402	20,330	8,137	
Claimed authorized student health fee	× \$12	× \$12	× \$ 9	
Claimed authorized health fees	<u>\$ 244,824</u>	<u>\$ 243,960</u>	<u>\$ 73,233</u>	
Actual student enrollment	37,370	37,226	14,736	
Health fee exemption	<u>(11,082)</u>	<u>(11,169)</u>	<u>(5,173)</u>	
Actual net student enrollment	26,288	26,057	9,563	
Actual authorized student health fee	× \$12	× \$12	× \$ 9	
Actual authorized health fees	<u>\$ 315,456</u>	<u>\$ 312,684</u>	<u>\$ 86,067</u>	
Audit adjustment, FY 2002-03	<u>\$ (70,632)</u>	<u>\$ (68,724)</u>	<u>\$(12,834)</u>	(152,190)
Total audit adjustment				<u>\$(796,744)</u>

Parameters and Guidelines states that health fees authorized by the *Education Code* must be deducted from costs claimed. *Education Code* Section 76355(c) states that health fees are authorized from all students except those who: (1) depend exclusively on prayer for healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need. (Pursuant to *Education Code* Section 76355(a), authorized health fees increased by \$1 effective with the Summer 2001 session.)

Also, *Government Code* Section 17514 states that costs mandated by the State means any increased costs which a district is required to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, *Government Code* Section 17556 states that COSM shall not find costs mandated by the State if the district has the authority to levy fees to pay for the mandated program or increased level of service.

Recommendation

We recommend that the district ensure allowable health services program costs are offset by the amount of health service fee revenues authorized by the *Education Code*.

District's Response

The second of these disagreements, Finding 4, relates to the student counts used to compute the offsetting health fees. The rationale [sic] used to make the determination of the students to include in the counts was based upon the district's interpretation of the intent of the mandate. The Rancho Santiago Community College District believes the intent of the mandate is to provide students with the same level of services offered during the year of implementation (fiscal year 1986/87) for a fee that cannot exceed statutory rates to insure students have access to health care.

Rancho Santiago Community College District contracts with many local police and fire departments to administer their academy programs. The academy programs are for the continuing education of police and fire professionals who are employed by local government agencies. Since the majority of the academy students have employer paid full medical benefits, and would have no use for the college's health centers, the district believed it would be redundant to require those employers to pay a health fee for their employees. Additionally, the majority of the academy training is held off campus, so the students would not be in immediate geographic proximity to the campus based health centers.

In addition, the nurses in charge of each health center have stated that by using the student information system they verify that each student who comes to the health center is currently enrolled and has paid their health fee. If the student does not meet the criteria then the student is denied service.

Since the academy students do not contribute to the cost of the program, we believe it is not appropriate to offset the costs of this program with a fee authority applied to the academy students. Rancho Santiago Community College District serves the largest number of academy students in Southern California, and has always done so as a public service. We feel to be penalized for providing this service to public safety officers and agencies would be a contradiction to the intent of the mandate, and furthermore would fail to indemnify the district for its true costs of complying with the mandate. If the district is not properly indemnified it would be unconstitutional.

SCO's Comment

The finding and recommendation remain unchanged. We agree that community college districts may choose not to levy a health services fee. This is true even if *Education Code* Section 76355 provides the districts with the authority to levy such fees. However, the effect of not imposing the health services fee is that the related health services costs do not meet the requirements for mandated costs as defined by *Government Code* Section 17514. In essence, health services costs recoverable through an authorized fee are not costs that the district is required to incur. Moreover, *Government Code* Section 17556 states that COSM shall not find costs mandated by the State as defined in *Government Code* Section 17514 if the district has the authority to levy fees to pay for the mandated program or increased level of service.

**FINDING 5—
Understated offsetting
revenues**

The district understated offsetting revenues by \$51,724 because it did not deduct clinical receipts recorded in revenue account 7752.

A summary of the understated offsetting revenues is as follows:

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Audit adjustment	<u>\$(14,694)</u>	<u>\$(14,914)</u>	<u>\$(22,116)</u>	<u>\$(51,724)</u>

Parameters and Guidelines specifies that any offsetting savings or reimbursements received by the district from any source as a result of the mandate must be identified and deducted so that only net district health services costs are claimed.

Recommendation

We recommend that the district ensure all applicable revenues are offset on its claims against its mandated program costs.

District's Response

The district agrees with this finding.

**Attachment—
District's Response to
Draft Audit Report**

October 6, 2004

Mr. Jim Spano
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250

Re: Rancho Santiago Community College District
Health Fee Elimination Program Audit Response

Dear Mr. Spano:

Thank you for extending our response time from September 24, 2004 to October 11, 2004. Our findings to the State Controller's Office (SCO) Health Fee Elimination Program Audit are included in this letter as follows:

The Rancho Santiago Community College District has a strong disagreement with two of the findings in the State Controller's Draft Audit Report for the Health Fee Elimination Program dated August 31, 2004. The disagreements relate to Finding 3, "Overstated indirect cost rate claimed", and Finding 4 "Understated authorized health fee revenue claimed".

The first of these disagreements, Finding 3, relates to the calculation of the college's Indirect Cost Rate Proposal (ICRP). The SCO alleges that the college has overstated its indirect costs by \$570,878 during the period of audit due to the fact that the rate was not federally approved. Furthermore, the SCO's recommendation states, "We recommend that the district ensure indirect costs claimed are computed using a federally approved rate prepared in accordance with OMB Circular A-21, or the SCO's alternate methodology using Form FAM-29C."

The Indirect Cost Rate Proposals were prepared in accordance with the federally approved methodology as provided by OMB Circular A-21, however these rates do not have federal approval. In order for the district to obtain federal approval it must have programs or grants funded by federal dollars that require a federally approved rate, and then submit the appropriate ICRPs for approval. If the district does not have federal program dollars or grants the cognizant federal agency responsible for approving the rates will simply return the rate calculation without consideration.

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Since the Parameters and Guidelines specify "...indirect costs may be claimed in the manner described by the SCO in the claiming instructions." it is apparent that the SCO made the determination to only accept a federally approved rate, or the SCO's alternative methodology, but not rates prepared in accordance with OMB Circular A-21. As a result, the SCO has established an inequity between those agencies that are able to obtain federal approval and those that are refused consideration; due to the fact the SCO's alternative methodology yields an average rate of only about one third of the federal methodology.

Additionally, we believe the intent of the constitution and the reimbursement process is to indemnify districts for their actual costs incurred, including direct and indirect costs. However, as a result of the SCO's restriction on the application of the federal rate methodology, two separate districts that incur identical costs will receive significantly different reimbursement. If district A is allowed to use a federally approved rate and district B is not eligible to apply for the federal rate, and is then required to use the SCO's methodology, district A could receive as much as three times or greater reimbursement for indirect costs. Since the SCO has created this inequity and districts cannot remedy it, we believe the SCO's restriction is unconstitutional. We believe it is unconstitutional for the SCO to make any determination that creates an inequity in treatment between similar agencies since the Rancho Santiago Community College District and other districts will continue to be denied their right to a federal rate consideration and approval.

The second of these disagreements, Finding 4, relates to the student counts used to compute the offsetting health fees. The rationale used to make the determination of the students to include in the counts was based upon the district's interpretation of the intent of the mandate. The Rancho Santiago Community College District believes the intent of the mandate is to provide students with the same level of services offered during the year of implementation (fiscal year 1986/87) for a fee that cannot exceed statutory rates to insure students have access to health care.

Rancho Santiago Community College District contracts with many local police and fire departments to administer their academy programs. The academy programs are for the continuing education of police and fire professionals who are employed by local government agencies. Since the majority of the academy students have employer paid full medical benefits, and would have no use for the college's health centers, the district believed it would be redundant to require those employers to pay a health fee for their employees. Additionally, the majority of the academy training is held off campus, so the students would not be in immediate geographic proximity to the campus based health centers.

In addition, the nurses in charge of each health center have stated that by using the student information system they verify that each student who comes to the health center is currently enrolled and has paid their health fee. If the student does not meet the criteria then the student is denied service.

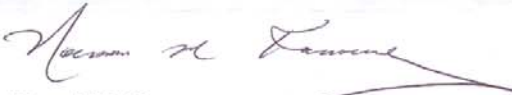
Since the academy students do not contribute to the cost of the program, we believe it is not appropriate to offset the costs of this program with a fee authority applied to the

academy students. Rancho Santiago Community College District serves the largest number of academy students in Southern California, and has always done so as a public service. We feel to be penalized for providing this service to public safety officers and agencies would be a contradiction to the intent of the mandate, and furthermore would fail to indemnify the district for its true costs of complying with the mandate. If the district is not properly indemnified it would be unconstitutional.

In conclusion, the Rancho Santiago Community College District respectfully requests the SCO reverse its findings related to the overstatement of indirect costs, and those findings related to the student count that pertain to the academy students.

If you need any additional information, please do not hesitate to call.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Noemi M. Kanouse", with a long, sweeping horizontal line extending to the right.

Noemi M. Kanouse
Assistant Vice Chancellor, Fiscal Services
714-480-7320

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